

CITY of  
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# Police & Fire Pension Proposal

January 14, 2009



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Where Are We Now?



# Where Are We Now?

- Citizens voted in 1946 to create a self-funded police-fire pension (retirement) plan
- Police and Fire employees . . .
  - do not contribute to Social Security . . .
  - and do not receive Social Security benefits (retirement income or disability benefits) upon retirement as a result of City employment



# Where Are We Now?

(continued)

- The Police-Fire pension (retirement) plan is a defined-benefit plan
- Why?
  - National norm for metropolitan police and fire departments
  - Pension plan replaces their Social Security plan, a defined-benefit plan
  - Encourages long-term employment
    - Training is expensive and extensive
    - Experience is valued
  - High-risk profession
    - Pension plan includes disability benefits, too



# Where Are We Now?

(continued)

- What is the current fiscal status of the pension plan?



# Where Are We Now?

(continued)

- Fiscal status of the police-fire pension plan (as of November 30, 2008)
  - Plan's total assets: \$98 million
  - Plan's estimated commitments earned as of June 30, 2008 to provide retirement benefits to current and retired police and fire employees: \$295 million \*
    - \* *[Values from Milliman's Actuarial Valuation as of June 30, 2008]*
  - Plan is currently \$197 million under-funded based on actuarial estimates to reach 100% funding level



# Where Are We Now?

(continued)

- Who manages the funds in the City's self-funded pension plan?



# Where Are We Now?

(continued)

- Pension Board
  - 11-member board, including police, fire, city administrators and citizens
    - Citizens include CPA (with audit expertise), attorney, and investment/financial advisor
  - Responsibilities:
    - Administer plan provisions
    - Develop investment levels (portfolio mix) within Council-approved limits
    - Determine actuarial assumptions
    - Advised by investment consultant, money managers, financial auditor, and actuaries
    - Make recommendations to City Council



# Where Are We Now?

(continued)

- Do the police officers and firefighters contribute?



# Where Are We Now?

(continued)

- Police and Fire employees contribute a fixed amount
  - Depends on when they were hired . . .
  - Those hired prior to 7/1/06 contribute 11.35% of their earnings (Tier I Plan)
  - Those hired after 7/1/06 contribute 8.5% of their earnings (Tier II Plan – reduced benefits)



# Where Are We Now?

(continued)

- Recent legislation requires any City in the State with an under-funded pension plan to make full contribution at least once every five years or the State can withhold 25% of the City's revenues collected by the State
- Springfield made a full contribution this year
- In order to do that . . .



# Where Are We Now?

(continued)

- City budget was cut an additional \$5.2 million in the current year to fund the full \$12.5 million pension contribution
  - City eliminated funding for 36 positions, including a significant number of police and fire positions
  - City cut an additional \$3 million from department /agency budgets, including transportation, health, parks, etc. (cut 9 positions)
  - No cost-of-living pay increase for employees in FY09
- An ongoing cut of this magnitude will not allow all existing services to be sustained



# Where Are We Now (continued)

- City Budget Information
  - General Fund: \$73 million
    - General Fund includes Police and Fire departments
    - General Fund includes the City's pension contributions
  - Many other City funds are “siloed” for specific approved uses (i.e., Capital Improvements tax, Transportation tax)



## Where Are We Now? (continued)

- We are not alone . . .
  - Many other municipal governments nationally are facing this same challenge
  - Many are deferring action
  - Facing a court order, St. Louis City recently passed a sales tax increase to fund their police-fire pension and public safety needs



# Where Are We Now?

(continued)

- If you're interested in more information on this topic . . .
  - While America Aged by Roger Lowenstein

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How Did We Get Here?



# How Did We Get Here?

- Many factors contributed . . .
  - City did not fund full amount of actuary-recommended contribution during four budget years (FY05-08)
    - Underfunded by \$10 million over four years
  - Actuarial assumptions changed to match actual experience (e.g., longer lifespans, adjusted investment returns, etc)
  - Tier I pension plan benefits were added in lieu of raises over a relatively short timeframe under an assumption of higher (1990s) investment returns



# How Did We Get Here?

(continued)

- Many factors contributed . . .
  - Market returns for pension fund have been less than expected since 2000
    - Conservative investment portfolio
    - Poor economic times
      - » 9/11's impact on market
      - » Burst of "technology bubble"
  - Current economic downturn
    - Pension plan assets now at \$98 million



# How Did We Get Here?

(continued)

- Options have been studied since 2004
  - Sales tax
  - Property tax
  - Other taxes and fees
  - Pension obligation bonds
  - Benefit reduction for new hires (completed in 2006)



However, instead of investing all our  
time and energies looking backwards...

**... WE'RE LOOKING  
AHEAD ... TOWARD  
ADDRESSING THE  
ISSUE**



# Four Criteria We Believe the Proposal Must Meet



## Four Criteria We Believe the Proposal Must Meet

- Address it now
- Stop the bleeding by applying lessons learned
- Everyone is involved
- Unified support by stakeholders

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**SO, LET'S LOOK AT  
THESE REQUIREMENTS  
ONE AT A TIME . . .**



# Address It Now

- Unfunded pension obligation is costing us \$39,000 per day in unrealized interest
- Citizens have indicated they prefer this problem be addressed soon – don't drag it out



# Stop the Bleeding by Applying Lessons Learned

- Actions already taken
  - Closed Tier I pension plan to new hires
  - Created Tier II pension plan
    - Reduced pension benefit plan instituted 7/1/06
  - Restructured Pension Board to improve communication
  - Hired new investment consultant
  - Revised investment policy to provide more investment flexibility



# Stop the Bleeding by Applying Lessons Learned (cont)

- Actions already taken (continued)...
  - Reduced investment fees by 30%
  - Increased City's contribution rate in current year from 28.88% of police-fire salaries to 50% of police-fire salaries in current budget year to reach full \$12.5 million contribution
  - Implemented vacation and holiday accumulation caps
    - Vacation and holiday accruals were limited



# Stop the Bleeding by Applying Lessons Learned (cont)

- Actions already taken (continued)...
  - Raised retirement age by 5 years for Tier II plan
  - Removed automatic COLA for Tier II plan
  - Not refunding contributions for Tier II plan



# Stop the Bleeding by Applying Lessons Learned (cont)

- Actions to be taken . . .
  - Implement safeguards to prevent under-funding or over-funding of pension fund
    - *Mandatory Council liaison as non-voting Pension Board member*
    - *Annual report to City Council*
    - *More oversight over day-to-day fund management*
    - *Coordinate with Internal Auditor and Actuary for best practices*
    - *Maintain City's contribution at actuary-recommended level*



## Stop the Bleeding by Applying Lessons Learned (cont)

- Why not just reduce the benefits of police officers and firefighters?
  - Cannot reduce benefits already earned
    - This would be illegal
  - Cannot reduce benefits promised, but not yet earned, without a vote of the citizens
    - City Charter, section 6.8



# Everyone is Involved

- Pension fund sources of revenue
  - City contributions
  - Employee contributions
  - Investment returns
  - Additional sources



# Everyone is Involved (continued)

- Proposing that everyone be involved . . .



# Everyone is Involved

(continued)

- Proposal to City Council: 1-cent sales tax with sunset provision
  - Proposing a February 2009 vote
  - Generates approx \$40 million annually
  - 1-cent sales tax has the potential to fund the plan
    - By comparison, a ½-cent sales tax estimated to take 10-20 years
  - Would sunset (end) when pension plan is funded to 100% level or 5 years, whichever occurs first
  - Equates to additional \$1 on a \$100 taxable sale
  - Entire 1-cent sales tax revenue would be dedicated to pension shortfall
  - Visitors anticipated to pay approximately 50% of total sales tax revenue



# Everyone is Involved

(continued)

- City's contribution increases 1%
  - From 28.88% of police-fire salaries to 29.88% until tax sunsets
    - Yields an additional contribution from City of \$240,000 per year
  - City's contribution will need to remain at actuary-recommended level after the tax sunsets to maintain the plan
  - City's un-funded obligation from FY05-08 (approx \$10 million in today's dollars) will be covered by future telecommunication settlement (assuming net proceeds are sufficient)



# Everyone is Involved

(continued)

- Police and Fire employee contributions
  - Personal contribution percentage for Tier I will increase effective 2010 (based on actuary's estimate in 2009)
  - In prior years, police and fire employees were given reduced or no pay increases in exchange for increased pension contribution by the City
    - 2004, gave up 1% salary increase
    - 2006, gave up 3% salary increase
  - Implemented vacation and holiday accumulation caps



# Everyone is Involved

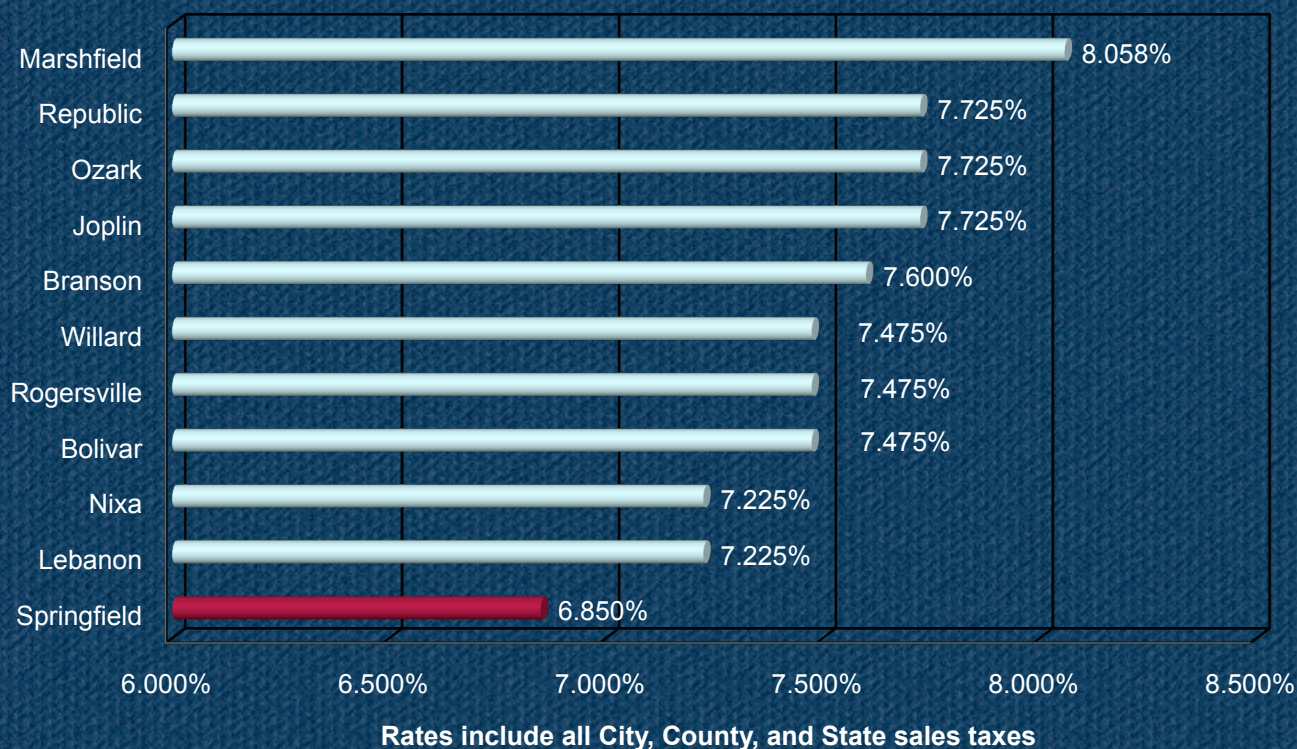
(continued)

- How does Springfield's sales tax rate compare to other Missouri cities?



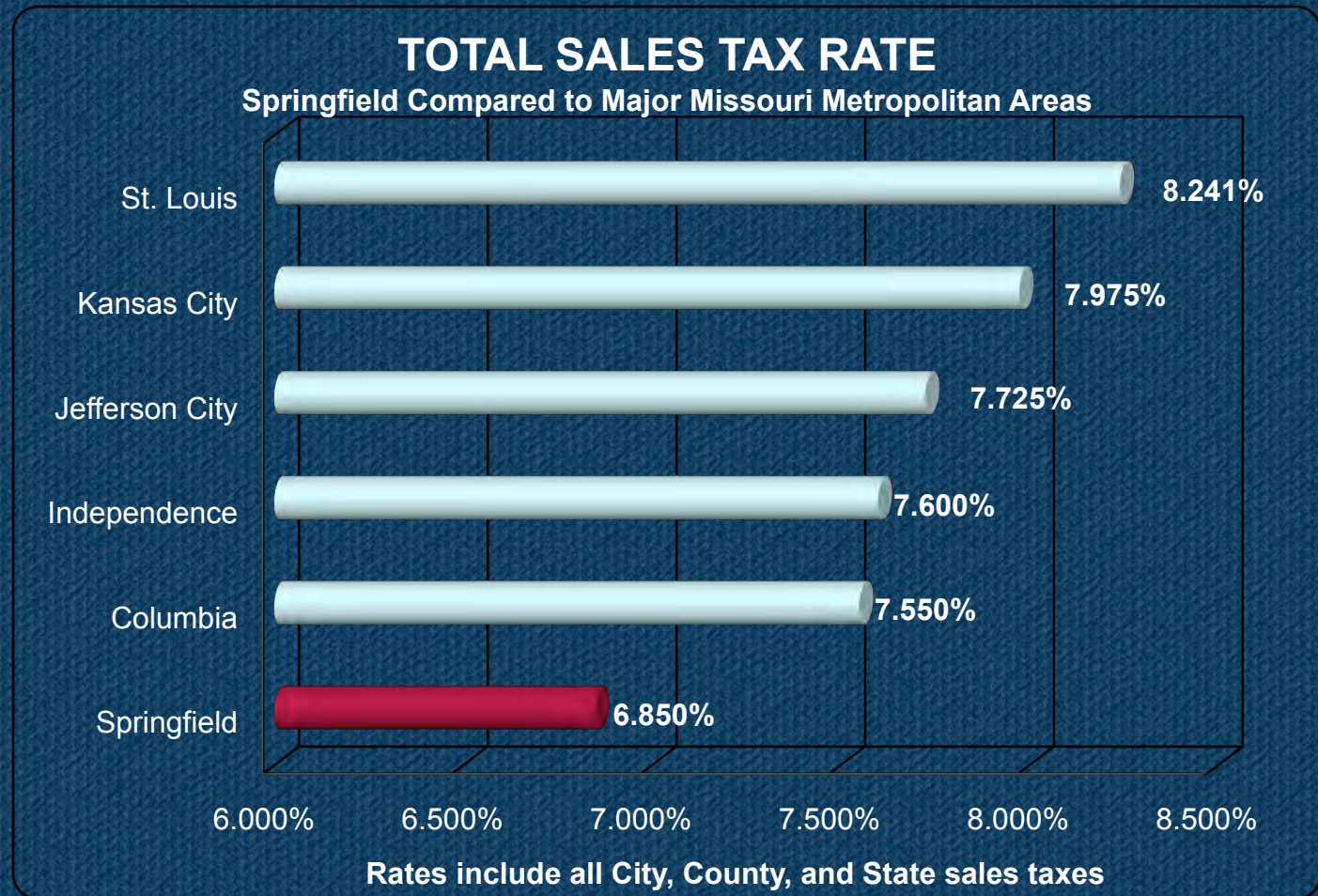
# Everyone is Involved (continued)

## TOTAL SALES TAX RATE (City, County, and State) Springfield Compared to Other Area Cities





# Everyone is Involved (continued)





# Everyone is Involved

(continued)

- Tier II Employees
  - If the sales tax passes, City would give Tier II employees the option of migrating to LAGERS
    - LAGERS is a state-wide public employee pension system
  - Would not reduce or eliminate City's obligation to those retirees that remain in our self-funded plan



# Unified Support by Stakeholders

- Solution will require support from:
  - Citizens
  - City Council
  - Pension Board
  - Police Department
  - Fire Department
  - Other City Employees
  - Community Leaders



## Unified Support by Stakeholders (continued)

- On December 15, 2008, City Council passed a resolution committing to the following if the tax passes . . .



## Unified Support by Stakeholders (continued)

- Increase City's contribution to 29.88% during life of the tax
- Contribute all net funds from telecommunications settlement into the pension fund
- Enroll new police and fire employees into Statewide LAGERS plan
- Offer Tier II employees option of migrating to LAGERS plan



## Unified Support by Stakeholders (continued)

- Not seek any new city-wide tax proposals during the life of this sales tax
  - Does not apply to renewals
- Identify City assets purchased by the General Fund that can be sold with proceeds to be contributed into the pension fund



# What if We Don't Address It?

- If the City contributes 28.88% of police-fire payroll annually, the pension funds will deplete in 20 years (obligation continues for 50+ years)
- The pension obligation, while underfunded, is a "debt of the City" and must receive funding priority
- We forego \$39,000 per day + compounding
- City's contribution rate will continue to grow over time
- Increased contribution rate = deeper cuts elsewhere in the City budget



# What If We Don't Address It?

(continued)

- Deeper cuts to City budget = reduced and/or eliminated services
- Current year's budget assumed 3% revenue increase
- If sales tax does not pass and general revenues decline by 1.5% this year and next, City's budget shortfall for fiscal year 2009-10 will be \$5,747,813
- So what cuts would be necessary to accommodate a \$5.7 million shortfall? . . .



# What If We Don't Address It?

(continued)

- Freeze 30 more positions
- Lay off some employees
- No across-the-board pay increase
- No merit increases
- Compensation cut for department heads, City Manager, and others
- Eliminate leadership/supervisory training program
- Reduce travel and professional development
- Eliminate citizen surveys
- Eliminate employee wellness program
- Eliminate a lot more internal programs



# What If We Don't Address It?

(continued)

- Reduce Parks budget by \$500,000 per year
  - Reduce operations/maintenance
  - Reduce Jordan Valley Park and Mediacom Ice Park programs
  - Reduce exhibits at the Zoo
  - Reduce recreation services
  - Reduce park administration



# What If We Don't Address It?

(continued)

- Reduce Transportation budget by \$250,000 per year
  - Extend street pavement preservation cycle to 26+ years
  - Goal: Resurface every 12 years
  - Deferred maintenance will be more expensive



# What If We Don't Address It?

(continued)

- Reduce Health Department budget by \$250,000 per year
  - Implement air permit fees
  - Eliminate house rental registration program
  - Eliminate multi-family housing safety inspections
  - Reduce animal control services
    - Eliminate weekend patrols
    - Eliminate trapping of wild animals



# What If We Don't Address It?

(continued)

- Eliminate support for non-profit service partners
  - Community Partnership of the Ozarks
  - Discovery Center of Springfield
  - History Museum of Springfield/Greene County
  - Mayor's Commission on Children
  - Mayor's Commission on Human Rights
  - Ozark Greenways, Inc.



# What If We Don't Address It?

(continued)

- Eliminate support for non-profit service partners (continued)
  - Ozarks Fighting Back
  - Partnership for Prosperity
  - Springfield Sister Cities Association
  - Traffic Safety Alliance
  - Urban Districts Alliance
  - Urban Neighborhoods Alliance
  - Watershed Committee of the Ozarks



# What If We Don't Address It?

(continued)

- Eliminate security system
- Eliminate support for community and partnership programs
  - Downtown CID
  - Festival of Lights
  - Downtown parking enforcement
  - Downtown Wi-Fi



# What If We Don't Address It?

(continued)

- Eliminate summer concerts
  - Eliminate Neighborhood Assessment program
  - Much more . . .
- 
- All of these cuts don't fix the pension shortfall . . . They just allow us to remain where we are



# What If We Don't Address It?

(continued)

- Police and Fire services make up 56% of City's general revenue budget
- Further reduction in Fire staff (closing a station) would likely reduce City's fire insurance rating, which could lead to higher fire insurance premiums paid by citizens and businesses
  - City fire rating scheduled to be re-rated in May 2009
- Negative impact on police/fire recruitment and retention
- Negative impact on recruitment/retention of all other City staff



# What If We Don't Address It?

## (continued)

- Could have a negative impact on City's bond rating
  - City's current Moody's bond rating: Aa
  - If rating dropped to A, each future year's bond issuance would cost the City an additional \$13 million in interest expense over the 20-year life of each issuance
    - Assumption is that future year's bond issuance would equal average of prior four years
  - If bond rating drops to A or BBB, City's interest expense increases, leaving fewer funds available for actual services and projects (e.g., transportation improvements)
- Affects Springfield's ability to move forward on other priorities until this issue is resolved
- Decline in quality of life for all our citizens



# Proposed Ballot Language for February Vote

- "Shall the City of Springfield impose a sales tax at a rate of 1 percent solely for the purpose of providing revenues for the Springfield Police and Firefighters Pension System with said tax to sunset upon the earlier of A) Five (5) years from the date of the commencement of collection of this tax or B) the Pension System fund reaching a fully-funded (100%) status as determined by an independent actuarial study conducted for the Pension System Board of Trustees?"

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# **SUMMARY**



# Summary

- Police and Fire employees do not receive Social Security benefits upon retirement as a result of City employment
- This is a commitment made to our Police and Fire employees
  - Police and Fire protection are core services – all citizens benefit
  - Funding their pension is a City Charter requirement
  - A debt we all owe

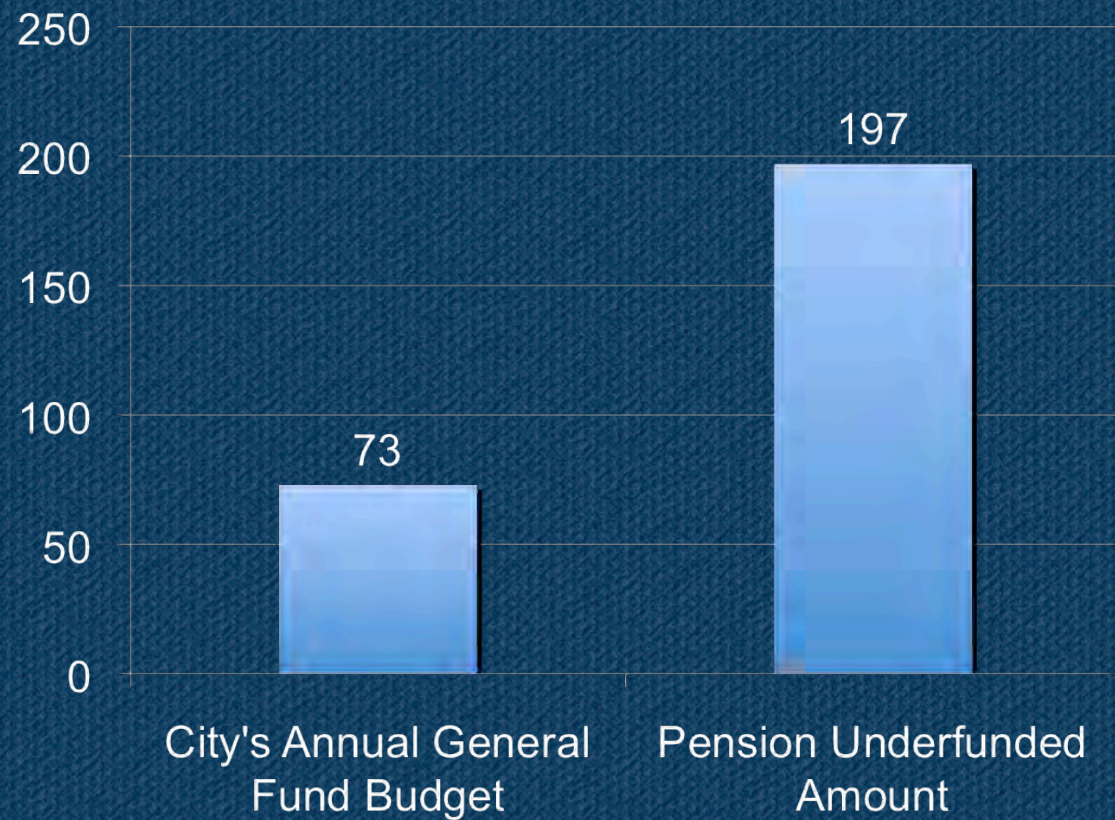


## Summary (continued)

- Plan is \$197 million underfunded
- To put the scope of the challenge into context, the City's general revenue funds totaled \$73 million this year
- Police and Fire services make up approximately 56% of City's general revenue budget
- *Thus, we can't "budget cut" ourselves out of this problem*



# Summary (continued)





## Summary (continued)

- City has already taken many actions to help “stop the bleeding”
  - Closed Tier I pension plan to new hires
  - Created Tier II pension plan
  - Pension Board adjustments
  - Reduced investment fees by 30%
  - Implemented vacation and holiday accumulation caps
  - City implemented \$5.2 million cut



## Summary (continued)

- Proposal is for us all to have “skin in the game”
  - Citizens: 1-cent sales tax with sunset
  - City: Additional 1-percent contribution and makes “whole” previous years’ underfunding from telecomm settlement
  - Police/Fire Employees: Additional contribution in 2010 (amount determined in 2009)
- Approximately 50% of sales tax paid by visitors



## Summary (continued)

- Determines Springfield's "quality of life"
- "If the sales tax does not pass, the resulting budget cuts will set Springfield's 'quality of life' back one or two decades" – Greg Burris



## Summary (continued)

- Delaying the solution costs us more later – better to solve it now
- By addressing this now, we will put Springfield at a competitive advantage over other cities facing this same issue

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Questions?  
Comments?

For additional information,  
visit [www.springfieldmo.gov](http://www.springfieldmo.gov)